

# City of Petaluma

Petaluma, California

*Single Audit Reports*

*For the year ended June 30, 2008*

SAR  
5/15/09

**C&L**  
Caporicci & Larson  
Certified Public Accountants

**City of Petaluma**  
**Single Audit Reports**  
**For the year ended June 30, 2008**  
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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH GOVERNMENT AUDITING STANDARDS**

To the Honorable Mayor and Members of City Council  
of the City of Petaluma  
Petaluma, California

We have audited the basic financial statements of the City of Petaluma, California (City) as of and for the year ended June 30, 2008, and have issued our report thereon dated April 9, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's basic internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis.

A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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To the Honorable Mayor and Members of City Council  
of the City of Petaluma  
Petaluma, California  
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**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The result of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and are reported in the Schedule of Findings and Questioned Costs as item 08-1.

This report is intended solely for the information and use of management, the City Council, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

*Capricci & Carson*

Oakland, California  
April 9, 2009



Caporicci & Larson  
Certified Public Accountants

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO  
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Honorable Mayor and Members of City Council  
of the City of Petaluma  
Petaluma, California

**Compliance**

We have audited the compliance of the City of Petaluma, California (City) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with generally accepted auditing standards in the United States; the standards applicable to financial audits contained in *Government Audit Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and are reported in the accompanying Schedule of Findings and Questioned Costs as item 08-1.

**Internal Control over Compliance**

The management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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To the Honorable Mayor and Members of City Council  
of the City of Petaluma  
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A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis.

A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did identify one deficiency in internal control over compliance that we consider to be significant deficiency, as defined above.

#### **Schedule of Expenditures of Federal Awards**

We have audited the basic financial statements of the City as of and for the year ended June 30, 2008, and have issued our report thereon dated April 9, 2009. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as whole.

This report is intended solely for the information and use of management, the City Council, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

*Capricci & Carson*

Oakland, California  
April 9, 2009

**City of Petaluma**  
**Single Audit Reports**  
**Schedule of Expenditures of Federal Awards**  
**For the year ended June 30, 2008**

Grantor Agency and Grant Title	Federal Catalog Number		State Pass-through Number	Program Expenditures
<b>U.S. Department of Housing and Urban Development:</b>				
<i>Direct Programs:</i>				
- Community Development Block Grant	14.218	*	B-06-MC-060049	\$ 207,726
- Community Development Block Grant	14.218	*	B-07-MC-060049	266,499
<b>Subtotal</b>				<b>474,225</b>
<i>Passed Through State of California Department of Housing</i>				
- Home Investment Partnership Program	14.239	*	05-HOME-1663	3,958,000
<b>Total U.S. Department of Housing and Urban Development</b>				<b>4,432,225</b>
<b>U.S. Department of Justice:</b>				
<i>Direct Programs:</i>				
Office of Community Oriented Policing Services				
- Bullet Proof Vest Partnership (BVP)	16.607		2005BUBX	1,123
- Bullet Proof Vest Partnership (BVP)	16.607		2006BUBX	1,816
- Bullet Proof Vest Partnership (BVP)	16.607		2007BUBX	3,883
<b>Subtotal</b>				<b>6,822</b>
<i>Passed Through State of California Office of Emergency Services:</i>				
- Domestic Violence Sexual Assault Unit (DVSA)	16.588		LE06047631	39,102
- Domestic Violence Sexual Assault Unit (DVSA)	16.588		LE07047631	36,972
<b>Subtotal</b>				<b>76,074</b>
<b>Total U.S. Department of Justice</b>				<b>82,896</b>
<b>National Highway Traffic Safety Administration:</b>				
<i>Pass-Through State of California Office of Traffic Safety:</i>				
- Collision Reduction Alcohol Suppression	20.600		AL0639	5,923
- DUI Enforcement & Awareness	20.600	*	AL0851	137,026
<b>Subtotal</b>				<b>142,949</b>
- Sobriety Checkpoint Program	20.601		SC074902	25,293
- Sobriety Checkpoint Program	20.601		SC08313	7,692
<b>Subtotal</b>				<b>32,985</b>
- Seatbelt Compliance Campaign	20.602		CT08313	5,216
<i>Pass-Through State of California Highway Patrol:</i>				
- Every 15 Minutes Program	20.602		7C051175-0	10,000
<b>Total National Highway Traffic Safety Administration</b>				<b>191,150</b>
<b>Page sub-total of federal expenditures</b>				<b>\$ 4,706,271</b>

**City of Petaluma**  
**Single Audit Reports**  
**Schedule of Expenditures of Federal Awards, Continued**  
**For the year ended June 30, 2008**

Grantor Agency and Grant Title	Federal Catalog Number	State Pass-through Number	Program Expenditures
<b>Subtotal from previous page</b>			<u>\$ 4,706,271</u>
<b>Federal Aviation Administration:</b>			
<i>Direct Programs:</i>			
- Airport Improvement Program (3-06-0186-17)	20.106	DTFA08-95-C-30818	126,842
- Airport Improvement Program (3-06-0186-18)	20.106	DTFA08-95-C-30818	<u>83,445</u>
<b>Total Federal Aviation Administration</b>			<u>210,287</u>
<b>U.S. Department of Transportation</b>			
<i>Pass-Through State of California Department of Transportation:</i>			
- S. McDowell between Lakeville/E. Washington	20.205	* STPL-5022(039)	1,307,095 a
- "D" Street Bridge Between Weller & D St., C61	20.205	BHLS-5022(038)	121,951
- Petaluma Blvd Street Repairs	20.205	RPSTPL-5022(040)	437,485
- East Washington & 6th	20.205	STPL-5022(041)	<u>140,799</u>
			<u>2,007,330</u>
<i>Pass-Through Metropolitan Transportation Commission:</i>			
- Short-Range Transit Plan	20.500	CA-90-Y401	<u>45,000</u>
<b>Total U.S. Department of Transportation</b>			<u>2,052,330</u>
<b>U.S. Environmental Protection Agency</b>			
<i>Direct Programs:</i>			
- Brownfields Assessment	68.818	BF-96914901-0	14,354
- Brownfields Assessment	68.818	BF-96954201-0	<u>38,206</u>
<b>Total U.S. Environmental Protection Agency</b>			<u>52,560</u>
<b>U.S. Department of Homeland Security</b>			
<i>Pass-Through State of California Office of Emergency Services:</i>			
- Public Assistance - 2005 Winter Storms	97.036	FEMA-1628-DR-CA	1,277,529
- Public Assistance - 2006 Spring Storms	97.036	FEMA-1646-DR-CA	<u>333,544</u>
<b>Total U.S. Department of Homeland Security</b>			<u>1,611,073</u>
<b>Total Expenditures of Federal Awards</b>			<u>\$ 8,632,521</u>

\* Denotes major program

a. \$932,878 of expenditure was incurred in FYE 06/07.



**City of Petaluma**  
**Single Audit Reports**  
**Notes to Schedule of Expenditures of Federal Awards**  
**For the year ended June 30, 2008**

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**1. REPORTING ENTITY**

The financial reporting entity consists of (a) the primary government, City of Petaluma, California (City), (b) organizations for which the primary government is financially accountable, and (c) other organizations for which the primary government is not accountable, but for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

**2. SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

The accompanying Schedule of Expenditures of Federal Awards (Schedule) presents the activity of all Federal financial assistance programs of the City. Federal financial assistance received directly from Federal agencies as well as funds passed through the state are included in the Schedule. The Schedule was prepared from only the accounts of various grant programs and, therefore, does not present the financial position or results of operations of the City.

**3. SUBRECIPIENTS**

Of the federal expenditures presented in the Schedule, the City provided federal awards to subrecipients as follows:

Program Title	Federal CFDA Number	Amount Provided To Subrecipients
Community Development Block Grant (CDBG)	14.218	
Community Resources for Independence		\$ 40,000
Rebuilding Together		99,840
Community of the Shelterless		87,830
Petaluma Ecumenical Properties		85,242
Petaluma People Services Center		70,157
Total CDBG -Entitlement Grant		<u>\$ 383,069</u>

**City of Petaluma**  
**Single Audit Reports**  
**Schedule of Findings and Questioned Costs**  
**For the year ended June 30, 2008**

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**A. SUMMARY OF AUDIT RESULTS**

1. The auditors' report expresses an unqualified opinion on the basic financial statements of the City of Petaluma, California (City).
2. No Significant deficiencies relating to the audit of the financial statements are reported in the basic financial statements.
3. No instances of noncompliance material to the basic financial statements of the City were disclosed during the audit.
4. Significant deficiencies relating to the audit of the major federal award programs are reported in the basic financial statements and are reported in Part C of this schedule below.
5. The auditors' report on compliance for the major federal award programs for the City expresses an unqualified opinion.
6. Audit findings relative to the major federal award programs for the City is reported in Part C of this Schedule below.
7. The programs tested as major programs include:

	<u>CFDA #</u>	<u>Expenditures</u>
Major Program:		
Community Development Block Grant	14.218	\$ 474,225
Home Investment Partnership Program	14.239	3,958,000
S. McDowell between Lakeville/E. Washington	20.205	1,307,095
DUI Enforcement & Awareness	20.600	137,026
<b>Total Program Expenditures</b>		<u>\$ 5,876,346</u>
<b>Total Expenditures of Federal Awards</b>		<u>\$ 8,632,521</u>
<b>Percent of Total Federal Award Expenditures</b>		<u>68.07%</u>

8. The threshold for distinguishing Types A and B programs was \$300,000.
9. The City was determined to be a low risk auditee.

**B. FINDINGS - FINANCIAL STATEMENTS AUDIT**

No financial statement finding noted.

**City of Petaluma**  
**Single Audit Reports**  
**Schedule of Findings and Questioned Costs, Continued**  
**For the year ended June 30, 2008**

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**C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAM AUDIT**

Finding 08-1                      U.S. Department of Transportation, Federal Highway Assistance (CFDA Number 20.205) – Under-reporting of Federal Expenditures.

Criteria:                              In accordance with the Basic Guidelines section of OMB's, all Federal grants must be reported on the City's Single Audit Reports in the year the expenditures were incurred.

Condition:                            During the performance of the audit, expenditures in the amount of \$932,878 incurred in fiscal year 2006-2007, were not reported on the Schedule Expenditures of Federal Awards for the year.

Cause:                                      The project expenditures were incurred in the prior fiscal year, but the reimbursement was not claimed until current fiscal year. Due to the lack of sufficient communication between the City departments, the City's Accounting department was unaware of these grant related expenditures. As a result, the expenditures were not reported on the prior year's Schedule of Expenditures of Federal Awards.

Questioned Costs:                      No questioned costs noted.

Context and Effect:                      Being aware of all grants to be received by the City will ensure that the Schedule of Federal Awards is complete and accurate.

Recommendation:                      We recommend that the City maintain sufficient control over all Federal awards to ensure the accuracy and completeness of the amounts reported on the Schedule of Expenditures of Federal Awards.

Management Response:                      The City will more closely monitor all dates of reimbursement claims and their corresponding federal expenditures for timeliness of reporting. Additional communication will be initiated with program staff if claims are not submitted for an extensive period of time.

**City of Petaluma**  
**Single Audit Reports**  
**Schedule of Findings and Questioned Costs, Continued**  
**For the year ended June 30, 2008**

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**C. PRIOR YEAR FINDINGS AND QUESTIONED COSTS**

Finding 07-1                      US Environmental Protection Agency (CFDA Number 66.458) - Under-reporting of Federal expenditures.

Criteria:                      In accordance with the Basic Guidelines section of OMB's, all Federal grants must be reported on the City's Single Audit Report in the year the expenditure was incurred.

Condition:                      During the performance of the audit, it was noted that expenditures in the amount of \$15,324,793 incurred in fiscal years 2005-2006, were not reported on the Schedule of Federal Awards for those years.

Cause:                      The City obtained a loan from the State Water Resources Control Board (Board). The City was unaware that the loan expenditures fell under Single Audit requirements, because this requirement was not made clear until the City received a letter in July 2007 that the loans were federally funded. As a result, the expenditure was not reported on the Schedule of Federal Awards.

Questioned Costs:                      In fiscal year 2005-2006, the amount of the grant expenditures would have caused it to be a major program. The grant was tested in fiscal year 2006-2007. The tests of the grant did not reveal any questioned costs or non-compliance with the requirements of the grant.

Context and Effect:                      Being aware of all grants to be received by the City will ensure that the Schedule of Federal Awards is complete and accurate.

Recommendation:                      Although this finding may not have been avoided given the circumstances. We recommend that the City investigate all Federal and State funding to ensure compliance with Single Audit requirements.

Management Response:                      In the instance reported with this finding on the 2007 Single Audit, the City had no way to know prior to issuance of 2006 Single Audit that some of the loan proceeds received during FY 06-07 were federal funds reimbursing FY 05-06 expenditures. Additionally the State confirmed that it failed to appropriately indicate on the October 2006 payment for FY 05-06 reimbursement, that the payment contained federal funds. Thus the lack of reporting in FY 05-06 Single Audit could not have been avoided.

During FY 06-07 Single Audit work, the City obtained more information from the Board and clarified that the determination of whether federal funds will be used for a loan payments is not made until the payment is issued. Thus, the City cannot determine what future funding will be federal until the payment is actually received.

Status:                      Not implemented.